

## OVERVIEW OF BUDGET

### BUDGET UNIT: REALIGNMENT (AAC, AAD, AAE)

	2003-04					
	Estimated Beginning Fund Balance	Budgeted Revenue	Budgeted Departmental Usage	Budgeted 10% Transfers	Estimated Ending Fund Balance	Estimated Change in Fund Balance
Mental Health	25,433,662	55,201,458	67,192,114	(5,337,670)	8,105,336	(17,328,326)
Social Services	16,447,227	59,742,774	78,837,115	5,337,670	2,690,556	(13,756,671)
Health	34,730,659	55,690,960	54,768,121		35,653,498	922,839
Total	76,611,548	170,635,192	200,797,350	-	46,449,390	(30,162,158)

## I. GENERAL PROGRAM STATEMENT

This budget is being presented for the first time in the budget book. At the end of the 2001-02 year it was converted from a trust fund to a restricted general fund. The format for this section varies from other budget units to help with presentation of information. The Realignment budgets do not directly spend funds or provide service. They are strictly financing budgets with the actual expenditures occurring within the operating budget units of the departments that receive Realignment revenue.

In 1991 the state shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as Realignment, resulted in the creation of two dedicated funding streams to pay for the shifted services: a ½ cent Sales Tax and a change in the depreciation schedule for vehicles which resulted in a 24.33% increase in Vehicle License Fee (VLF) revenues. Each of the three service areas identified were required to have their own separate accounts established and each of those service areas receive a different share of statewide Realignment revenues.

Within the mental health area, the programs for which the county is now responsible for are: community-based mental health programs, State Hospital services for county patients, and Institutions for Mental Disease. Within the social services area, the programs for which the county is now responsible for are: the county revenue stabilization program and the county justice subvention program. Within the health area, the programs for which the county is now responsible for are: AB8 county health services, local health services, medically indigent services, and the county medical services program.

In addition to these program responsibility shifts, a number of programs had changes made to their cost sharing ratios. Social services had a number of programs involved in sharing ratio changes (numbers are shown in percentages in the order of state/county shares of cost): foster care from 95/5 to 40/60, child welfare services from 76/24 to 70/30, In Home Supportive Services (IHSS) from 97/3 to 65/35, county services block grant from 84/16 to 70/30, adoption assistance from 100/0 to 75/25, Greater Avenues for Independence from 100/0 to 70/30, CalWorks from 89/11 to 95/5, and administration from 50/50 to 70/30. Within health, the California Children's Services program cost share shifted from 75% state/25% county to 50/50.

The Realignment program has some flaws in its design that adversely impact County of San Bernardino revenues. First is San Bernardino's status as an "under equity county," meaning that the county receives a lesser share of revenue relative to other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred just prior to the adoption of Realignment. San Bernardino County was under equity in those programs. Realignment did attempt to address the inequity issue, but the effort fell short and the county continues to be under equity to date. The problem of being under equity is that it exacerbates itself over time. As growth occurs in the revenue streams, that incremental new funding is distributed on existing sharing arrangements between the counties. The counties that are already over equity get a higher percentage of the new revenue while those that are under equity get less.

## REALIGNMENT

In addition to the under equity issue is the fact that the demand for the services we are providing and the revenue streams funding them are both sensitive to the economy. When the economy is doing well, demand for services is reduced and revenues are high. When the economy does poorly, demand for services is high, but revenues under perform. During the recent good years, the realignment funds recovered from earlier difficulties and built up an available fund balance. Beginning in the 2002-03 year, those fund balances began to be depleted as revenues shrank, demand for services increased, and expenses increased.

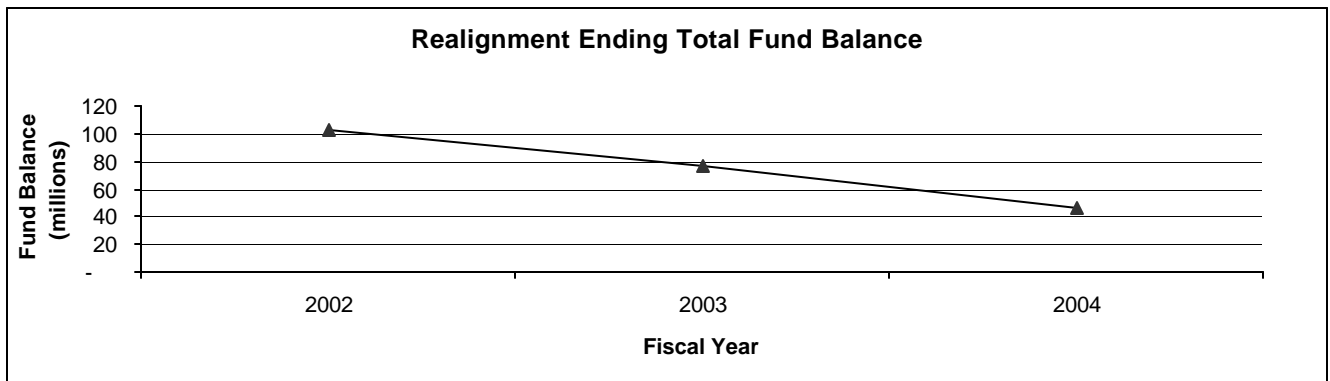
The state anticipated that some of the problems with Realignment could result in litigation or unfunded mandate claims. As a result the legislation contained three poison pill provisions that would make certain provisions of Realignment inoperative. The three poison pills that could nullify Realignment, or portions of it, are: (1) a county successfully filing an unfunded mandate claim with respect to realigned programs, (2) constitutional challenges regarding Realignment's treatment of VLF revenues (which are constitutionally protected as local government revenue) or a finding that exclusion of Realignment revenue from Proposition 98 education funding calculations is unconstitutional, and (3) an appellate court determination that 1982 legislation shifting responsibility for medically indigent adults to counties is reimbursable as an unfunded mandate.

The realignment legislation does allow for some flexibility in usage of funds at the county level. Upon action by the Board of Supervisors, a county can transfer 10% of a given years revenue from one fund to another. San Bernardino County has used the provision repeatedly over the years to help support either the health or social services programs. In the chart above there is a budgeted transfer for the 2003-04 year noted in the "Budgeted 10% Transfers" column. Any such transfer would have to come before the Board of Supervisors for approval before taking place.

## II. BUDGET HISTORY

Total - All Realignment Funds				
	Actual 2001-02	Budget 2002-03	Estimated 2002-03	Budget 2003-04
Beginning Fund Balance	72,906,036	102,089,307	102,089,307	76,611,548
Revenue	165,126,275	178,755,312	166,531,844	170,635,192
Departmental Usage	135,943,004	184,385,696	192,009,603	200,797,350
Ending Fund Balance	102,089,307	96,458,923	76,611,548	46,449,390
Change in Fund Balance	29,183,271	(5,630,384)	(25,477,759)	(30,162,158)

Available Fund Balance, as seen in the graph below, in the Realignment funds peaked at the end of the 2001-02 year as the county benefited from a large growth distribution attributable to the 2000-01 increase in sales taxes and vehicle license fees. Departmental Usage increases and revenue stagnation have resulted in an increasing use of one-time funds to pay for ongoing costs. Based on current projections, both Mental Health and Health will run out of available fund balance as a financing source in the 2004-05 fiscal year.



Of note in this graph is that the fund balance ending 2003-04 at the far right is 76% Health fund balance; the other two funds are nearly out of cash to begin the 2004-05 budget cycle.

## REALIGNMENT

In 2002-03, estimated revenues are projected to under perform budget due to declining sales tax revenues resulting in no sales tax growth distribution from 2001-02 and a reduced base revenue amount for 2002-03. Base revenue is calculated by adding prior year base and prior year growth. Since there was actually a shortfall in 2001-02, the 2002-03 base is reduced. VLF growth has also slowed significantly, dropping from a peak of \$9.7 million in 2000 to an estimated \$1.4 million in 2002-03.

The decline in sales tax revenues is an important factor in the stability of the realignment funds going forward. Caseload and cost increases for programs within social services get the first priority when distributing sales tax growth revenue because they are mandated programs for which service must be provided. Since sales tax is down, there is no growth money to pay for the increasing cost of these programs. It is anticipated that in 2004-05 the increased costs in some of the social services programs will require additional county general fund financing.

### III. HIGHLIGHTS OF CHANGES WITHIN THE INDIVIDUAL REALIGNMENT FUNDS

Within the sections below, trends within the individual realignment fund categories of Mental Health, Social Services, and Health will be reviewed. These realignment budgets provide financing and not direct service. As such, the focus will be on broad expense and revenue trends. For more detailed information regarding departmental usage of realignment funds as it relates to programs and service delivery, please consult the appropriate departmental budget unit.

#### MENTAL HEALTH

Mental Health				
	Actual 2001-02	Budget 2002-03	Estimated 2002-03	Budget 2003-04
Beginning Fund Balance	32,301,976	47,202,385	47,202,385	25,433,662
Revenue	53,845,346	54,496,540	54,532,402	55,201,458
Departmental Usage	33,744,678	62,912,489	71,032,161	67,192,114
10% Transfers	(5,200,259)	(5,265,378)	(5,268,964)	(5,337,670)
Ending Fund Balance	47,202,385	33,521,058	25,433,662	8,105,336
Change in Fund Balance	14,900,409	(13,681,327)	(21,768,723)	(17,328,326)

The Mental Health Realignment fund revenue is composed approximately 2/3 sales tax and 1/3 vehicle license fee. Continued strength in VLF has helped offset some of the declines in sales tax within the Mental Health fund, however, program cuts by the State and significantly increasing costs of salaries and benefits have resulted in climbing departmental use of realignment funds. The actual departmental use shown in the chart above for 2001-02 is skewed lower by about \$11.0 million due to a one-time recognition of revenue within Behavioral Health as a result of GASB accounting rule changes at the end of 2001-02. Given that adjustment projected realignment use by Behavioral Health has still climbed substantially and can not be continued at this pace. In 2004-05, Behavioral Health will be faced with significant budget cuts or will require additional general fund financing to bring ongoing expenditures in line with ongoing revenues.

Breakdown of Departmental Usage of Mental Health Realignment				
	Actual 2001-02	Budget 2002-03	Estimated 2002-03	Budget 2003-04
Behavioral Health	33,519,394	62,636,215	70,716,893	66,873,463
Health Care Costs	225,284	276,274	315,268	318,651
Total Departmental Usage	33,744,678	62,912,489	71,032,161	67,192,114

## REALIGNMENT

### SOCIAL SERVICES

Social Services				
	Actual 2001-02	Budget 2002-03	Estimated 2002-03	Budget 2003-04
Beginning Fund Balance	23,095,211	27,287,820	27,287,820	16,447,227
Revenue	56,768,765	67,288,306	56,897,880	59,742,774
Departmental Usage	57,776,415	69,725,246	73,007,437	78,837,115
10% Transfers	5,200,259	5,265,378	5,268,964	5,337,670
Ending Fund Balance	27,287,820	30,116,258	16,447,227	2,690,556
Change in Fund Balance	4,192,609	2,828,438	(10,840,593)	(13,756,671)

Revenues for Social Services are primarily (96%) sales tax with minimal VLF. As a result of this dependence on sales tax, the social services revenues have been particularly hard hit by the poor performance of statewide sales tax collection. This unstable revenue source combined with rising demand for services and significant cost increases has caused a quick decline in the Social Services Realignment fund balance. It is probable that in the 2004-05 year the social services programs will require substantial additional general fund support.

Cost increases within social services are a result of climbing caseloads and increased expenditure. Expenditure increases include salary and benefit increases for employees as well as salary and benefit increases for IHSS workers.

Breakdown of Departmental Usage of Social Services Realignment				
	Actual 2001-02	Budget 2002-03	Estimated 2002-03	Budget 2003-04
Social Services Programs*	50,208,391	61,903,994	65,336,185	71,015,863
California Childrens Services	1,284,813	1,538,041	1,388,041	1,538,041
Probation	4,484,211	4,484,211	4,484,211	4,484,211
County General Fund	1,799,000	1,799,000	1,799,000	1,799,000
Total Departmental Usage	57,776,415	69,725,246	73,007,437	78,837,115

\*Soc. Svcs. Programs include: IHSS, Foster Care, Seriously Emotionally Disturbed, and Administrative Claim Matches

### HEALTH

Health				
	Actual 2001-02	Budget 2002-03	Estimated 2002-03	Budget 2003-04
Beginning Fund Balance	17,508,849	27,599,102	27,599,102	34,730,659
Revenue	54,512,164	56,970,466	55,101,562	55,690,960
Departmental Usage	44,421,911	51,747,961	47,970,005	54,768,121
10% Transfers	-	-	-	-
Ending Fund Balance	27,599,102	32,821,607	34,730,659	35,653,498
Change in Fund Balance	10,090,253	5,222,505	7,131,557	922,839

Health Realignment is funded approximately 1/3 sales tax and 2/3 VLF. As a result it had greater revenue stability over the last two years as the other funds have been troubled by the downturn in sales tax. Within Health, departmental expenses have been brought into line with ongoing revenues by not providing realignment increases to pay for rising salary and benefit costs. By holding realignment to ARMC and Public Health flat, they have effectively experienced a budget cut due to inflation and the rising costs associated with salaries and benefits. The slight increase in 2003-04 for Public Health reflects of backfill of lost SB90 revenue from the state and is not a true increase.

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The other programs funded from Health realignment are Medically Indigent Adult (MIA) Payments and Health Care Costs. The MIA budget funds payments to non-county hospitals for treatment of MIA patients. The Health Care Costs budget unit helps pay for the ARMC Lease Payment and the increase in budget for this unit represents greater realignment support for this expense.

The Health Realignment Fund is currently in the best fiscal shape of the three realignment funds. This is primarily the result of the lack of direct impact of state budget cuts on Health overall. Going forward this is not anticipated to continue and given the size of some of the potential cuts to the hospital it is foreseeable that this fund too will experience a significantly declining fund balance in the near future.

<b>Breakdown of Departmental Usage of Health Realignment</b>				
	<b>Actual</b>	<b>Budget</b>	<b>Estimated</b>	<b>Budget</b>
	<b>2001-02</b>	<b>2002-03</b>	<b>2002-03</b>	<b>2003-04</b>
Arrowhead Regional Medical Cntr	28,884,540	28,000,000	28,000,000	28,000,000
Medically Indigent Adult Payments	-	2,550,000	1,587,046	2,550,000
Public Health	10,992,823	13,574,089	13,458,179	13,908,689
Health Care Costs	<u>4,544,548</u>	<u>7,623,872</u>	<u>4,924,780</u>	<u>10,309,432</u>
Total Departmental Usage	44,421,911	51,747,961	47,970,005	54,768,121

Budgetary Note: Financial information presented in this Realignment budget section is consistent with state reporting requirements for the Realignment funds. The state's reporting requirements are not consistent with the county's implementation of GASB 34 as it relates to revenue accrual. As such, within the county's accounting system, an adjustment will be made to show the correct revenues in accordance with the county's accrual procedures. This is a revenue timing issue only as a result of delays by the state in distributing growth revenue.